

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

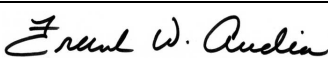
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **Canton Public Library**

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**Financial Report**  
**December 31, 2006**

# Canton Public Library

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## Independent Auditor's Report

To the Canton Public Library Board  
Canton Township, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Canton Public Library (the "Library") as of December 31, 2006 and for the year then ended, which collectively comprise the Library's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Canton Public Library as of December 31, 2006 and the respective changes in financial position thereof, and the respective budgetary comparisons for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, in accordance with the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, although not required to be a part of, the basic financial statements.

*Plante & Moran, PLLC*

March 20, 2007

# Canton Public Library

## Balance Sheet - Statement of Net Assets December 31, 2006

	General Fund	Endowment Fund - Permanent Fund	Total Governmental Funds Balance Sheet - Modified Accrual	Adjustments (Note 2)	Statement of Net Assets - Full Accrual
<b>Assets</b>					
Cash (Note 3)	\$ 2,170,304	\$ 162,439	\$ 2,332,743	\$ -	\$ 2,332,743
Receivables:					
Property taxes	5,335,451	-	5,335,451	-	5,335,451
Other	1,500	3,000	4,500	-	4,500
Other assets	-	-	-	-	-
Depreciable capital assets (Note 4)	-	-	-	10,395,386	10,395,386
Nondepreciable capital assets (Note 4)	-	-	-	67,500	67,500
Total assets	<u>\$ 7,507,255</u>	<u>\$ 165,439</u>	<u>\$ 7,672,694</u>	10,462,886	18,135,580
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 145,085	\$ -	\$ 145,085	-	145,085
Accrued interest payable	-	-	-	56,606	56,606
Deferred revenue	5,770,727	3,000	5,773,727	(3,000)	5,770,727
Noncurrent liabilities:					
Due within one year:					
Leases	-	-	-	274,048	274,048
Compensated absences	-	-	-	73,941	73,941
Due in more than one year - Leases	-	-	-	4,944,189	4,944,189
Total liabilities	5,915,812	3,000	5,918,812	5,345,784	11,264,596
<b>Fund Balances</b>					
Reserved for endowment	-	134,195	134,195	(134,195)	-
Fund balances - Unreserved	1,591,443	28,244	1,619,687	(1,619,687)	-
Total fund balances	1,591,443	162,439	1,753,882	(1,753,882)	-
Total liabilities and fund balances	<u>\$ 7,507,255</u>	<u>\$ 165,439</u>	<u>\$ 7,672,694</u>		
<b>Net Assets</b>					
Investment in capital assets - Net of related debt				5,244,649	5,244,649
Restricted for endowment				134,195	134,195
Unrestricted				1,492,140	1,492,140
Total net assets				<u>\$ 6,870,984</u>	<u>\$ 6,870,984</u>

# Canton Public Library

## Statement of Revenue, Expenditures, and Changes in Fund Balance - Statement of Activities Year Ended December 31, 2006

		Endowment	Total Governmental Funds		
	General Fund	Fund - Permanent Fund	Revenues and Expenditures - Modified Accrual	Adjustments (Note 2)	Statement of Activities - Full Accrual
<b>Revenue</b>					
Property tax	\$ 5,374,987	\$ -	\$ 5,374,987	\$ -	\$ 5,374,987
State aid	55,162	-	55,162	-	55,162
Fines	200,578	-	200,578	-	200,578
Fees	57,027	-	57,027	-	57,027
Interest on investments	160,659	6,564	167,223	-	167,223
Contributions and donations	89,286	37,306	126,592	(7,922)	118,670
Revenue sharing	3,513	-	3,513	-	3,513
Rentals	11,515	-	11,515	-	11,515
Total revenue	5,952,727	43,870	5,996,597	(7,922)	5,988,675
<b>Expenditures</b>					
Salaries	2,232,352	-	2,232,352	3,179	2,235,531
Fringe benefits	432,538	-	432,538	-	432,538
Supplies	174,653	-	174,653	(9,284)	165,369
Library books and materials	691,325	-	691,325	(488,596)	202,729
Professional and contractual services	279,694	-	279,694	-	279,694
Communications	65,945	-	65,945	-	65,945
Conferences, workshops, and travel	28,477	-	28,477	-	28,477
Community relations	5,153	-	5,153	-	5,153
Printing and publishing	67,161	-	67,161	-	67,161
Insurance and bonds	73,342	-	73,342	-	73,342
Utilities	207,223	-	207,223	-	207,223
Building repair and maintenance	168,021	-	168,021	(69,392)	98,629
Rentals	16,211	-	16,211	-	16,211
Building improvements	98,740	-	98,740	(84,488)	14,252
Capital outlay	249,605	-	249,605	(249,605)	-
Property tax refund	48,479	-	48,479	-	48,479
Debt service/Interest on long-term debt	515,713	-	515,713	(277,517)	238,196
Loss on sale of assets	-	-	-	43,217	43,217
Depreciation	-	-	-	1,016,242	1,016,242
Total expenditures	5,354,632	-	5,354,632	(116,244)	5,238,388
<b>Excess of Revenue Over Expenditures</b>	598,095	43,870	641,965	108,322	750,287
<b>Fund Balance/Net Assets - Beginning of year</b>	993,348	118,569	1,111,917	5,008,780	6,120,697
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 1,591,443</u>	<u>\$ 162,439</u>	<u>\$ 1,753,882</u>	<u>\$ 5,117,102</u>	<u>\$ 6,870,984</u>

# Canton Public Library

## Budgetary Comparison Schedule - General Fund Year Ended December 31, 2006

	Modified Accrual			
	Originally	Amended	Actual	Variance
	Adopted Budget			
<b>Revenue</b>				
Property tax	\$ 5,360,173	\$ 5,374,987	\$ 5,374,987	\$ -
State aid	61,431	55,161	55,162	1
Fines	190,000	196,858	200,578	3,720
Fees	47,500	56,130	57,027	897
Interest on investments	70,000	155,440	160,659	5,219
Contributions and donations	20,000	89,000	89,286	286
Revenue sharing	3,513	3,513	3,513	-
Rentals	6,000	9,515	11,515	2,000
<b>Total revenue</b>	<b>5,758,617</b>	<b>5,940,604</b>	<b>5,952,727</b>	<b>12,123</b>
<b>Expenditures</b>				
Salaries	2,308,922	2,241,526	2,232,352	9,174
Fringe benefits	422,158	460,000	432,538	27,462
Supplies	236,315	212,405	174,653	37,752
Library books and materials	759,322	759,322	691,325	67,997
Professional and contractual services	274,611	307,646	279,694	27,952
Communications	86,468	76,650	65,945	10,705
Conferences, workshops, and travel	33,300	33,300	28,477	4,823
Community relations	5,000	5,200	5,153	47
Printing and publishing	66,000	74,000	67,161	6,839
Insurance and bonds	87,300	74,000	73,342	658
Utilities	206,500	210,000	207,223	2,777
Building repair and maintenance	98,496	185,000	168,021	16,979
Rentals	30,300	20,000	16,211	3,789
Building improvements	20,000	130,000	98,740	31,260
Capital outlay	239,067	251,980	249,605	2,375
Property tax refund	20,000	58,000	48,479	9,521
Debt service	515,300	515,713	515,713	-
<b>Total expenditures</b>	<b>5,409,059</b>	<b>5,614,742</b>	<b>5,354,632</b>	<b>260,110</b>
<b>Excess of Revenue Over Expenditures</b>	<b>349,558</b>	<b>325,862</b>	<b>598,095</b>	<b>272,233</b>
<b>Fund Balance - Beginning of year</b>	<b>993,348</b>	<b>993,348</b>	<b>993,348</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 1,342,906</b>	<b>\$ 1,319,210</b>	<b>\$ 1,591,443</b>	<b>\$ 272,233</b>

### **Note 1 - Summary of Significant Accounting Policies**

Canton Public Library (the "Library") is governed by a six-member board of trustees.

The accounting policies of Canton Public Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

#### **Reporting Entity**

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Library reports the following governmental funds:

**General Fund** - The General Fund contains the records of the ordinary activities of the Library that are not accounted for in another fund. General Fund activities are financed by revenue from the general property taxes, penal fines, state-shared revenue, and other sources.

**Endowment Fund** - The Endowment Fund accounts for gifts and donations given to the Library. The majority of these items are restricted for specific purposes by the donor.

The Funds are budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and debt service expenditures are recorded only when payment is due.



# Canton Public Library

## Notes to Financial Statements December 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

In addition to presenting information for the General Fund on the modified accrual basis (as budgeted), the financial statements present information for the Library using the economic resources measurement focus and the accrual basis of accounting. This information is intended to demonstrate the degree to which taxpayers have funded the full cost of services received. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Library's policy is to first apply restricted resources.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits** - The Library considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Capital Assets** - Capital assets are defined by the Library as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Building improvements, furniture and fixtures, equipment, and library books, periodicals, etc. are depreciated using the straight-line method over the following useful lives:

Building, fixtures, and improvements	50 years
Furniture and equipment	3-10 years
Library books, periodicals, etc.	7 years

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (Vacation Leave)** - It is the Library's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Property Taxes** - Properties are assessed as of December 31. The taxes are billed and become a lien on December 1 of the following year; they are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes billed during December are included in deferred revenue.

The property taxes for the Library are assessed to the residents of Canton Township. The 2005 taxable valuation of the Library totaled approximately \$3,530 million, on which taxes levied consisted of 1.5554 mills for Library operating purposes. This resulted in approximately \$5.4 million for operating, which is recorded in the General Fund.

**Pledges** - Contributions to the Endowment Fund are recorded when received in the fund statements. A receivable and revenue are recorded in the government-wide statements when pledges of future contributions are received.

# Canton Public Library

## Notes to Financial Statements December 31, 2006

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements

As discussed in Note 1, the governmental funds are presented on the modified accrual basis of accounting, and the Library as a whole is also presented on the full accrual basis. The following is a reconciliation of fund balance on the modified accrual basis of accounting to net assets presented on the full accrual basis:

<b>Total Fund Balances for Governmental Funds</b>	<b>\$ 1,753,882</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(5,218,237)
Capital assets used in governmental activities are not financial resources and are not reported in the funds	10,462,886
Interest amounts on long-term liabilities are not payable until due in the funds	(56,606)
Pledges receivable are expected to be collected over several years and are not available to pay for current year expenditures	3,000
Compensated absences are not due and payable in the current period and are not reported in the funds	(73,941)
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 6,870,984</u></b>

# Canton Public Library

## Notes to Financial Statements December 31, 2006

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

The following is a reconciliation of the changes in fund balance on the modified accrual basis to the change in net assets on the full accrual basis:

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 641,965</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(114,877)
Pledges are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned	(7,922)
Accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(3,179)
Repayment of capital lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	274,048
The change in accrued interest expense is reported as an expenditure on the statement of activities but not in governmental funds	3,469
Governmental funds report proceeds from fixed asset disposals; in the statement of activities, losses on disposals are reported	<u>(43,217)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 750,287</u></b>

### **Note 3 - Cash**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Library's deposits and investment policies are in accordance with statutory authority.

The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$120,225 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Canton Public Library

## Notes to Financial Statements December 31, 2006

### Note 3 - Cash (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment Type	Fair Value	Rating	Rating Organization
Sweep account	\$ 2,136,017	Aaa	Moody

### Note 4 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Capital assets not being depreciated - Land	\$ 67,500	\$ -	\$ -	\$ 67,500
Capital assets being depreciated:				
Building, fixtures, and improvements	9,568,057	86,246	-	9,654,303
Furniture and equipment	2,537,106	326,523	(65,957)	2,797,672
Books, periodicals, etc.	5,847,258	488,596	-	6,335,854
Subtotal	17,952,421	901,365	(65,957)	18,787,829
Accumulated depreciation:				
Building, fixtures, and improvements	1,839,907	238,857	-	2,078,764
Furniture and equipment	1,567,782	192,520	(22,740)	1,737,562
Books, periodicals, etc.	3,991,252	584,865	-	4,576,117
Subtotal	7,398,941	1,016,242	(22,740)	8,392,443
Net capital assets being depreciated	10,553,480	(114,877)	(43,217)	10,395,386
Net capital assets	\$ 10,620,980	\$ (114,877)	\$ (43,217)	\$ 10,462,886

Capital assets, including library books, are recorded at cost. Depreciation expense was \$1,016,242 for the year ended December 31, 2006.

# Canton Public Library

## Notes to Financial Statements December 31, 2006

### Note 5 - Long-term Debt

A summary of the debt outstanding of the Library at December 31, 2006 is as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital lease obligations	3.500%- 5.200%	\$274,048- \$466,533	\$ 5,492,285	\$ -	\$ (274,048)	\$ 5,218,237	\$ 274,048
Other long-term obligations - Accumulated employee benefits			<u>70,762</u>	<u>3,179</u>	<u>-</u>	<u>73,941</u>	<u>73,941</u>
Total long-term obligations			<u>\$ 5,563,047</u>	<u>\$ 3,179</u>	<u>\$ (274,048)</u>	<u>\$ 5,292,178</u>	<u>\$ 347,989</u>

**Capital Leases** - The Library has a capital lease relating to its building at December 31, 2006. General obligation bonds were issued by the Canton Township Building Authority and are payable through 2020 for capital improvements of the building. Canton Township and the Library have entered into an agreement that calls for annual payments from the Library equal to the debt service requirements on the bonds. The future minimum lease obligations and the net present value are as follows:

Years Ending December 31	Amount
2007	\$ 501,425
2008	487,550
2009	523,675
2010	507,300
2011	546,100
2012-2016	2,632,075
2017-2020	<u>2,032,200</u>
Total minimum lease payments	7,230,325
Less amount representing interest	<u>(2,012,088)</u>
Present value at December 31, 2006	<u>\$ 5,218,237</u>

**Interest** - Interest expense of the Library for the year ended December 31, 2006 approximated \$241,000.

### **Note 6 - Risk Management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for general liability, property, workers' compensation, health, and disability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **Note 7 - Defined Benefit Pension Plan**

**Plan Description** - Canton Public Library participates in the Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the Library. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the System for these full-time employees was established by Canton Public Library's board and requires a contribution from the employees of 7 percent of gross wages.

**Annual Pension Cost and Three-year Trend Information** - For the year ended December 31, 2006, Canton Public Library's annual pension cost of \$82,459 for the plan was equal to the Library's required and actual contribution. The 2006 annual required contribution was determined as part of the actuarial valuation as of December 31, 2004 using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit longevity and promotional salary increases, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a open basis. The remaining amortization period is 30 years.



# Canton Public Library

## Notes to Financial Statements December 31, 2006

### Note 7 - Defined Benefit Pension Plan (Continued)

The following trend information includes only pension-related activity (assets, liabilities, and contributions related to health care have been excluded):

	Year Ended December 31		
	2006	2005	2004
Annual pension costs (APC)	\$ 82,459	\$ 86,003	\$ 88,010
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	Actuarial	Actuarial	Actuarial
	Valuation as of	Valuation as of	Valuation as of
	December 31,	December 31,	December 31,
	2005	2004	2003
Actuarial value of assets	\$ 1,779,454	\$ 1,542,116	\$ 1,297,209
Actuarial accrued liability (AAL)	\$ 2,461,773	\$ 2,157,809	\$ 2,044,559
Underfunded AAL (UAAL)	\$ 682,319	\$ 615,693	\$ 747,350
Funded ratio (percentage)	72.3%	71.5%	63.4%
Covered payroll	\$ 817,136	\$ 746,841	\$ 746,355
UAAL as a percentage of covered payroll	84%	82%	100%

### Note 8 - Postemployment Benefits

The Library provides health care benefits to certain full-time employees, based on age and years of service, upon retirement in accordance with the Canton Public Library Retiree Medical Plan. There are no retirees currently eligible for benefits. The Library includes pre-Medicare retirees and their spouses in its insured health care plan, with no contributions required by the participants. The Library will reimburse a minimum of 50 percent of the cost of medical coverage to its retirees depending upon eligibility requirements. The Library purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. There were no postemployment benefits paid during the current year. During the year ended December 31, 2005, the Library transferred net assets of the Fiduciary Fund to MERS Health Care Savings Program (HCSP). The HCSP is acting in a trust capacity to administer, invest, and manage the funds in order to provide for the funding of health benefit retirees. There was no actuarial valuation available as of the report date. During the year ended December 31, 2006, the Library transferred \$50,000 to the HCSP.

### **Note 8 - Postemployment Benefits (Continued)**

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

### **Note 9 - Budget Information**

The annual budget is prepared by the Library management and adopted by the Library board; subsequent amendments are approved by the Library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget statement (budgetary comparison schedule - General Fund) is presented on the same basis of accounting and level of detail as the adopted budget.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. There were no unfavorable expenditure budget variances.



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March 20, 2007

To the Canton Public Library Board  
Canton Township, Michigan

New auditing rules effective December 31, 2006 have resulted in some changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standards (Statement on Auditing Standards Number 112, referred to as SAS 112) require us to inform you about any matters noted in your accounting procedures or internal controls that the new auditing standards define as a significant deficiency. The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency. For example, the requirements of SAS 112 go so far as to classify certain journal entries proposed by your auditor as a significant deficiency.

We are also required to communicate these matters to more people. In the past, we have provided our comments and observations as part of a meeting or discussion at the end of our work directly to management. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the Canton Public Library Board, in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit of the financial statements of Canton Public Library (the "Library") as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

- While performing the required audit procedures, Plante & Moran, PLLC proposed journal entries that were necessary in order for the financial statements to be materially correct.

In addition to the above, we have identified an additional other matter that we would like to communicate as the result of our audit. This matter is not considered a significant deficiency.

### **Retiree Health Care Benefits and GASB No. 45**

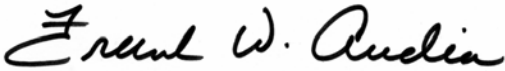
The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local governmental units in recognizing the cost of retiree health care and other nonpension postemployment benefits. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of an employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008 (reporting under GASB No. 43). While the Library has accumulated some monies to fund its obligation for retiree health care and has created an account with MERS for retiree health care, the Library, like most all other governmental units, is not actuarially funding this liability like a pension system. These new standards allow the Library to fund the determined actuarial accrued liability for benefits provided and earned to date over 30 years. This new pronouncement could have a significant effect on Canton Public Library if the Library intends to actuarially fund this obligation. We recommend that the Library complete the actuarial evaluation of this benefit obligation to fully understand the dollar implication to the Library's budget.

This communication is intended solely for the information and use of management and the Library's board and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank you and your staff again this year for their preparedness, cooperation, and assistance that they provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Frank W. Audia". The script is cursive and fluid.

Frank W. Audia

A handwritten signature in black ink that reads "Wendy Trumbull". The script is cursive and fluid.

Wendy N. Trumbull